

FINANCE

**Agreement Between the
UNITED STATES OF AMERICA
and HUNGARY**

Signed at Washington and Budapest
June 19, 1990

with

Memorandum of Understanding



NOTE BY THE DEPARTMENT OF STATE

Pursuant to Public Law 89—497, approved July 8, 1966
(80 Stat. 271; 1 U.S.C. 113)—

“. . .the Treaties and Other International Acts Series issued under the authority of the Secretary of State shall be competent evidence . . . of the treaties, international agreements other than treaties, and proclamations by the President of such treaties and international agreements other than treaties, as the case may be, therein contained, in all the courts of law and equity and of maritime jurisdiction, and in all the tribunals and public offices of the United States, and of the several States, without any further proof or authentication thereof.”

HUNGARY

Finance

*Agreement signed at Washington and Budapest
June 19, 1990;
Entered into force June 19, 1990.
With memorandum of understanding.*

SWAP AGREEMENT AMONG THE UNITED STATES
TREASURY, THE NATIONAL BANK OF HUNGARY
AND THE GOVERNMENT OF HUNGARY

I. To provide the Republic of Hungary with near-term support for its economic adjustment efforts, the United States Treasury Department (the "Treasury") and the Bank for International Settlements, acting for certain participating member central banks, (collectively the "Cooperating Monetary Institutions"), are prepared to provide a short-term credit facility to the National Bank of Hungary (the "Bank") aggregating not more than two hundred and eighty million United States dollars (U.S.\$280,000,000) (the "Multilateral Facility"), the share of the Treasury being not more than twenty million United States dollars (U.S.\$20,000,000).

II. The United States Treasury Exchange Stabilization Fund, with the Federal Reserve Bank of New York (the "FRBNY") acting as fiscal agent, hereby agrees to extend to the Bank a drawing facility of an amount up to twenty million United States dollars (U.S.\$20,000,000) on a covered basis in the form of Hungarian forints/United States dollars swap. This facility will be available for two drawings, each on two business days' notice (New York). The amount of each drawing under this agreement shall be in proportion to the Treasury commitment under the Multilateral Facility, as set forth in paragraphs 4 and 5 and Schedule A of the Memorandum of Understanding among the Central Bank of Hungary and the Cooperating Monetary Institutions of June 15, 1990 (the "Memorandum of Understanding"). The amount drawn under this agreement, together with interest accrued thereon, shall be liquidated not later than September 14, 1990. This agreement is subject to, and incorporates by reference, the terms and conditions set forth in the Memorandum of Understanding.

III. The drawings under this agreement may be used to facilitate the execution of transactions to forestall or counter disorderly financial market conditions. The rate of exchange applied to each drawing under this agreement shall be applied to its liquidation. This rate shall be based upon the spot rate as agreed between the parties at the time the drawing is made.

IV. Proceeds of each drawing under this agreement will be employed as follows:

A. The United States dollars are to be credited, pursuant to paragraph 6(i) of the Memorandum of Understanding, to the General Account at the FRBNY in the name of "National Bank of Hungary" (the "General Account") by authenticated telecommunication. To the extent that funds credited to the General Account under each drawing are not required immediately for payment, the Bank may authorize the FRBNY to debit the General Account after each drawing by the amount not so required and invest this amount in a non-transferable United States Treasury Certificate of Indebtedness, which the Secretary of the Treasury is prepared to issue to the Bank, at par, to mature September 14, 1990. The Bank's authorization to invest the proceeds from a drawing in a Certificate must be received on or before 10 A.M. (New York) of the day on which the funds are received from that drawing. Each Certificate will be issued and redeemed by the FRBNY, and redemption shall occur on two business days' notice (New York). Each Certificate will be held in the Bank's general securities custody account on the books of the FRBNY. Each Certificate will bear interest at a rate based upon the average equivalent coupon-issue yield at the auction of the latest issue of three-month United States Treasury bills preceding the date of issuance of that Certificate. The average rate of yield will be stated in two decimal places, and, if such decimal is not a multiple of .05, it will be adjusted to the next higher multiple of .05 (the "Adjusted Yield"). Interest will be calculated on the actual number of days in the year, i.e., 365 days.

B. The Hungarian forints counterpart of each of the drawings by the Bank is to be credited to a special account in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States, Special Account No. 2" on the books of the Bank in accordance with instructions given to the Bank by authenticated telecommunication. The Hungarian forints counterpart of each of the drawings will earn a return at a rate of interest which is equal to the corresponding Adjusted Yield as calculated in subparagraph IV.A. Such return shall be converted to United States dollars at the time of each repayment on the amount being repaid at the respective rate of exchange described in paragraph III above. Such balance may be withdrawn by the United States Treasury on two business days' (Budapest) notice.

V. This agreement is executed in two counterparts, each of which when so executed shall be deemed to be an original, and all of which taken together shall constitute one and the same agreement.

United States Treasury
Exchange Stabilization
Fund

Government of
Hungary

By:



Charles H. Dallara
Assistant Secretary
(International Affairs)


Ferenc Rabar
Minister of Finance

National Bank of Hungary

By:



Ferenc Barthe
President

June 19, 1990

June 15, 1990

MEMORANDUM OF UNDERSTANDING

(1) The Facility

(i) This Memorandum of Understanding sets forth the mutual understandings of (a) the Magyar Nemzeti Bank (the "Central Bank"), and (b) the Bank for International Settlements (the "BIS"), acting for eleven participating member central banks, and the United States Department of the Treasury (the "Treasury") as to the provision of near-term support for the economic adjustment efforts of the Hungarian Republic ("Hungary") (the "Facility"). The BIS and the Treasury shall hereafter individually be referred to as a "Cooperating Monetary Institution" and collectively as the "Cooperating Monetary Institutions."

(ii) The Cooperating Monetary Institutions are providing the Facility in light of (a) the approval by the Executive Board of the International Monetary Fund (the "Fund") on March 14, 1990 of a Stand-by Arrangement (the "Fund Arrangement") that is expected to permit Hungary to make purchases from the Fund of up to SDR 159 million, of which the second purchase of up to SDR 31.84 million is expected to be made before the end of July 1990 and the third purchase of up to SDR 31.84 million at the end of

August 1990; (b) disbursements from the International Bank for Reconstruction and Development (the "World Bank") under a Structural Adjustment Loan that is expected to be approved by the Executive Board of the World Bank in June 1990 in an aggregate amount of U.S. \$200 million (the "World Bank Loan"), of which the first tranche is expected to be made available by the end of July 1990 in an aggregate amount of U.S. \$100 million; and (c) disbursements from the Export-Import Bank of Japan (the "JEXIM") under a co-financing arrangement that is to be disbursed in parallel with the World Bank Loan in an aggregate amount of U.S. \$200 million (the "JEXIM Financing"), of which the first tranche in an aggregate amount of U.S. \$100 million is expected to be made available at approximately the same time and in the same amount as disbursements under the World Bank Loan; (d) the agreement by the Central Bank and the appropriate Hungarian authorities to apply any disbursements from the World Bank under the World Bank Loan, the proceeds of any purchases under the Fund Arrangement or other purchases from the Fund, and any disbursements from the JEXIM under the JEXIM Financing, in repayment of this Facility, and in any event to repay the Facility in full not later than September 14, 1990 (the "Maturity Date"); and (e) written assurances from the President of the Central Bank that the Hungarian authorities will work diligently to obtain renewals of deposits and other credit facilities of foreign banks that were withdrawn earlier and to ensure that existing deposits and other credit facilities of foreign banks

are renewed at maturity, and that it is not the intention of the Central Bank to use any part of this Facility, or of the sources of repayment for this Facility, in order to repay such deposits and other credit facilities of foreign banks.

(2) The Separate Agreements

To implement this Memorandum of Understanding each Cooperating Monetary Institution shall enter into a separate agreement with the Central Bank (the "Separate Agreement" and collectively, the "Separate Agreements"). The terms and conditions of each Separate Agreement shall be consistent with the provisions of this Memorandum of Understanding, and shall govern the respective rights and obligations of the parties thereto.

(3) Commitments of the Cooperating Monetary Institutions

The total amounts of the commitments made by each of the Cooperating Monetary Institutions under their respective Separate Agreements to the Facility are set out in Part 1 of Schedule A to this Memorandum of Understanding (the "Commitments"). The aggregate commitments of (i) the BIS with respect to the participation of the Bank of Japan as a participating member central bank, and (ii) the Treasury are hereafter referred to as the "Group A Commitments"; and the commitment of the BIS with respect to participating member central banks other than the Bank of Japan is hereafter referred to as the "Group B Commitment." The breakdown of the total Commitments of the Cooperating Monetary Institutions into the Group A Commitments and the Group

B Commitment is set out in Part 2 of Schedule A to this Memorandum of Understanding.

(4) Funding of the Drawings on the Facility

(i) The aggregate amount of the Facility shall be U.S. \$280 million, which shall be made available to the Central Bank by the Cooperating Monetary Institutions in three drawings at the Federal Reserve Bank of New York (the "FRBNY") subject to the terms and conditions of this Memorandum of Understanding. Subject to the provisions regarding reduction of each drawing in paragraph (5) below, the first drawing shall be in the amount of U.S. \$100 million in anticipation of expected disbursements under the World Bank Loan (the "First Drawing"); the second drawing shall be in the amount of U.S. \$80 million in anticipation of expected purchases from the Fund under the Fund Arrangement or other purchases from the Fund (the "Second Drawing"); and the third drawing shall be in the amount of U.S. \$100 million in anticipation of expected disbursements under the JEXIM Financing (the "Third Drawing"). The First Drawing, the Second Drawing, and the Third Drawing hereafter are collectively referred to as the "drawings." The First Drawing and the Second Drawing, respectively, shall each be funded one-half from the Group A Commitments and one-half from the Group B Commitment. The Third Drawing shall be funded solely from the Group B Commitment.

(ii) For the drawings under the Facility by the Central Bank pursuant to paragraph (5) below, each of the Cooperating Monetary Institutions shall, one New York business day prior to

each drawing's requested value date, in an authenticated telecommunication received by and in a form acceptable to the FRBNY, irrevocably authorize and instruct the FRBNY to debit its account on the books of the FRBNY in an amount which is equal to its respective share of the Group A Commitments and the Group B Commitment, as reduced pursuant to paragraph (5) below if applicable, and, if funds in its account are not sufficient, to liquidate investments the FRBNY holds for it, and to transfer such amount to the Central Bank's account on the FRBNY's books. The FRBNY shall effect such transfer only if it has received similar irrevocable authorizations and instructions from each of the Cooperating Monetary Institutions with funds in each of their accounts, or investments held at the FRBNY that may be liquidated, sufficient to cover the respective amounts to be transferred. For purposes of the Third Drawing, however, such irrevocable authorizations and instructions to the FRBNY shall be required only from the BIS.

(5) Amounts Available to be Drawn under the Facility

Subject to the conditions precedent set out in paragraph (6) below, the Central Bank may request one or more drawings on the Facility for a value date not later than August 15, 1990, by giving two New York business days' notice by authenticated telecommunication to the FRBNY and to each of the Cooperating Monetary Institutions in a form acceptable to each of them; provided, however, that for purposes of the Third Drawing such notice shall be required only to the FRBNY and the BIS; provided

further, however, that the amount of each drawing that may be requested under the Facility shall be reduced by the aggregate amount of (i) with respect to the First Drawing, any disbursements from the World Bank under the World Bank Loan, (ii) with respect to the Second Drawing, the proceeds of any purchases from the Fund received after June 1, 1990, and prior to the date of the Second Drawing, and (iii) with respect to the Third Drawing, any disbursements from the JEXIM under the JEXIM Financing; and provided further that if the amount of any of the drawings that may be requested by the Central Bank is reduced pursuant to this paragraph, then (x) the amount of any such reduction which applies to the First Drawing or the Second Drawing shall be applied on a pari passu basis to decrease the amount of the Group A Commitments and the amount of the Group B Commitment, respectively, by the amount of one-half of such reduction, and (y) the amount of any such reduction which applies to the Third Drawing shall be applied to decrease the amount of the Group B Commitment, for the purposes of funding the Facility in accordance with paragraph (4) above and repayment of the Facility in accordance with paragraph (8) below.

(6) Crediting of the Drawings and Conditions Precedent

(i) Drawings made under the Facility pursuant to paragraph (5) may be made in any order subject to compliance with the conditions precedent specified in subparagraphs (ii), (iii), and (iv) of this paragraph. For each drawing, the FRBNY shall debit the accounts of either or both of the Cooperating Monetary

Institutions, as appropriate, subject to the receipt of appropriate instructions referred to in paragraph (4)(ii) above that it is able to execute, in amounts provided for in paragraph (4)(i) above, taking account of any reduction in the Commitments pursuant to paragraph (5), and shall credit the amount of that drawing to the Central Bank's general account on the FRBNY's books; and specifically that with respect to the Third Drawing the FRBNY shall debit only the account of the BIS.

(ii) The following conditions precedent shall apply to the First Drawing on the Facility:

(a) The FRBNY shall have received a copy of a letter addressed to the Cooperating Monetary Institutions from the World Bank in the form set forth in Schedule B stating that the World Bank Loan has been circulated to the Executive Directors of the World Bank for consideration and approval; Hungary has met all conditions for presentation of the World Bank Loan to the Executive Directors, including agreement on a medium-term economic framework; the President of the World Bank has recommended approval of the World Bank Loan; and the Central Bank's expectation that it will receive the first disbursement under the World Bank Loan of approximately U.S. \$100 million in reimbursement of expenditures incurred during the execution of the program supported under the World Bank Loan appears to be reasonable;

(b) The FRBNY shall have received a copy of the instructions and other communications to the World Bank, as well as a letter from the World Bank acknowledging such instructions, specified in paragraph (9)(iii) below, which shall have been provided by the appropriate Hungarian authorities; and

(c) The Central Bank shall have obtained such additional documentation as may be required by a Cooperating Monetary Institution, including the document in the form of Schedule C referred to in paragraph (11) below, and shall have provided copies of such additional documentation to the FRBNY.

(iii) The following conditions precedent shall apply to the Second Drawing on the Facility:

(a) The FRBNY shall have received a copy of a letter addressed to the Cooperating Monetary Institutions from the Managing Director of the Fund in the form set forth in Schedule D concerning Hungary's eligibility to make additional purchases under the Fund Arrangement before the end of August 1990;

(b) The FRBNY shall have received a copy of the instructions and other communications to the Fund specified in paragraph (9)(ii) below, which shall be provided by the appropriate Hungarian authorities; and

(c) The requirements of subparagraph (6)(ii)(c) above have been met.

(iv) The following conditions precedent shall apply to the Third Drawing on the Facility:

(a) The FRBNY shall have received a copy of a letter addressed to the Cooperating Monetary Institutions from the JEXIM in the form set forth in Schedule E stating that the loan agreement applicable to the JEXIM Financing has been approved by the President of JEXIM; the JEXIM Financing is being provided in co-financing with the World Bank Loan; and the Central Bank's expectation that it will receive the first disbursement under the JEXIM Financing of approximately U.S. \$100 million on or prior to September 14, 1990 appears to be reasonable.

(b) The FRBNY shall have received a copy of the instructions and other communications from the JEXIM, as well as a letter from the JEXIM acknowledging such instructions specified in paragraph (9)(iv) below, which shall have been provided by the appropriate Hungarian authorities; and

(c) The requirements of subparagraph (6)(ii)(c) above have been met.

(7) Repayment Schedule

(i) The Central Bank shall repay the drawings made under paragraph (5), plus accrued and unpaid interest on the amount repaid, as set out below:

(a) On each date on which the proceeds are made available to the appropriate Hungarian authorities of

(x) any disbursements from the World Bank under the World Bank Loan in reimbursement of expenditures incurred during the execution of the program supported under the World Bank Loan, or (y) any purchases under the Fund Arrangement or other purchases from the Fund, or (z) any disbursements from the JEXIM under the JEXIM Financing, such proceeds shall be applied immediately in repayment of the Facility in accordance with the procedures set forth in paragraphs (8) and (9) below; and

(b) On the Maturity Date, any remaining outstanding balance.

(ii) The Central Bank shall have the right, at any time, on giving two New York business days' notice by authenticated telecommunication to the FRBNY and to each of the Cooperating Monetary Institutions, to reimburse in advance all or part of the drawings made under the Facility, in accordance with the procedures set forth in paragraphs (8) and (9) hereof and subject to compliance with any requirement under the Separate Agreements for a related interest rate adjustment.

(iii) Prior to any repayment under this paragraph, the Central Bank shall provide the FRBNY, in a form acceptable to the FRBNY, with a schedule of interest payments due on the date of each such repayment to each of the Cooperating Monetary Institutions pursuant to the Separate Agreements.

(8) Repayment Procedures

(i) The Central Bank shall make all repayments of the drawings, plus accrued and unpaid interest, on the Facility through the FRBNY, which shall distribute repayments to the Cooperating Monetary Institutions as set forth below. With respect to the proceeds of either purchases under the Fund Arrangement or other purchases from the Fund referred to in subparagraph (7)(i)(a)(y) above or disbursements under the World Bank Loan referred to in subparagraph (7)(i)(a)(x) above, the FRBNY shall apply one-half of such proceeds in proportionate repayment of the Group A Commitments, including interest thereon, and the remaining one-half of such proceeds in repayment of the Group B Commitment, including interest thereon. With respect to the proceeds of disbursements under the JEXIM Financing referred to in subparagraph (7)(i)(a)(z) above, the FRBNY shall apply such proceeds in repayment of the Group B Commitment, including interest thereon. With respect to repayments of the Facility from the proceeds of any other sources of repayment made available to the FRBNY, including, but not limited to, repayments resulting from the debit of any other account or liquidation of any investments of the Central Bank at the FRBNY in accordance with subparagraph (ii) below, the FRBNY shall distribute such proceeds pari passu to the Cooperating Monetary Institutions in proportion to the Commitments. At the same time as each repayment of principal is made by the Central Bank through the FRBNY, accrued and unpaid interest on the amount of principal repaid shall be paid at the rates specified in the respective

Separate Agreements. In the event that either the Group A Commitments or the Group B Commitment, including interest, is repaid in full before the other, all repayments of the Facility shall be applied by the FRBNY to repay either the Group A Commitments or the Group B Commitment, whichever has not yet been repaid in full. (The procedures set out in this subparagraph (i) are hereinafter referred to as "Repayment Procedures.")

(ii) The Central Bank irrevocably authorizes and instructs the FRBNY to debit the Special Funds Account, as defined in paragraph (9) below, in the amounts of each repayment of the Facility, plus interest accrued on such amounts, on the repayment dates specified in paragraph (7); provided, however, that, except on or after the Maturity Date, the Special Funds Account shall be debited in repayment of the Facility only on such date or dates that the aggregate amounts of principal, and interest earned thereon, in the Special Funds Account are equal to or greater than U.S. \$40 million. Funds deposited into the Special Funds Account that are not immediately applied to repayment of the Facility may be invested, at the request of the Central Bank, in the repurchase agreement pool of the FRBNY, and such investments plus interest earned thereon shall be deemed for purposes of this Memorandum of Understanding to be part of the Special Funds Account. For purposes of repayment in accordance with this paragraph, interest earned on deposits in the Special Funds Account by either the World Bank, the Fund, or the JEXIM shall be attributed *pari passu* to such deposits. If, on the

Maturity Date, the funds in the Special Funds Account are not sufficient to effect full repayment of the Facility including interest, the Central Bank irrevocably authorizes and instructs the FRBNY to debit any other account of the Central Bank with the FRBNY and, if necessary, to liquidate investments the FRBNY holds for the Central Bank, and apply such amounts first to the payment of accrued and unpaid interest and then to the payment of outstanding principal by transferring such amounts to the accounts of the Cooperating Monetary Institutions on the books of the FRBNY in accordance with the Repayment Procedures.

(iii) If either of the Cooperating Monetary Institutions (or any participating member central bank substituted for the BIS) receives a repayment or satisfaction of a claim arising under its respective Separate Agreement, that part of the amount so received that exceeds the proportionate share of such Cooperating Monetary Institution (or the proportionate share of a participating member central bank substituted for the BIS) as set forth in Schedule A to this Memorandum of Understanding shall be transferred by it to the FRBNY for distribution to the other Cooperating Monetary Institution in accordance with the Repayment Procedures.

(iv) Repayment in accordance with subparagraphs (i), (ii), and (iii) of this paragraph shall apply under each Separate Agreement, including under the substitution provisions of the agreement between the BIS and participating member central banks for which the BIS is acting.

(9) Instructions on Purchases from the Fund and Disbursements from the World Bank and the JEXIM

(i) As a condition to the drawings under this Facility, the appropriate Hungarian authorities shall give the instructions set forth under subparagraphs (ii), (iii), and (iv) below, which instructions shall not be revoked until the FRBNY certifies on behalf of the Cooperating Monetary Institutions in an authenticated telecommunication to the Central Bank that the Facility has been repaid in full, including interest.

(ii) With respect to the proceeds made available to Hungary from purchases under the Fund Arrangement or any other purchases from the Fund prior to repayment of the Facility in full, including interest, the appropriate Hungarian authorities shall irrevocably instruct the Fund, in the form set forth in Schedule F, to transfer such proceeds directly to the FRBNY for deposit into a special account of the Central Bank at the FRBNY established for this purpose (the "Special Funds Account"), and shall, as required by the Fund, provide any confirmations of such irrevocable instructions at the time of any purchase under the Fund Arrangement or of any other purchases from the Fund by Hungary; and the Central Bank hereby irrevocably authorizes and instructs the FRBNY to debit such account and to disburse any funds received into such account in repayment of the Facility in accordance with paragraph (8) above. A copy of the letter of instructions in the form set forth in Schedule F shall be provided to the FRBNY in accordance with paragraph (6)(iii)(b)

above as a condition precedent to the Second Drawing under the Facility.

(iii) With respect to the disbursements from the World Bank in reimbursement of expenditures incurred during the execution of the program supported under the World Bank Loan, the appropriate Hungarian authorities shall irrevocably instruct the World Bank, in the form set forth in Schedule G, to deposit such disbursements into the Special Funds Account. In addition, the Central Bank shall provide to the FRBNY a copy of a letter addressed to Hungary and the Central Bank by the World Bank, in the form set forth in Schedule H, in which the World Bank (a) takes note that the proceeds of the disbursements by the World Bank under the World Bank Loan will be applied in repayment of the Facility, (b) confirms that the World Bank will carry out instructions by the Hungarian authorities to pay the proceeds of such disbursements to the Special Funds Account, and (c) notes that such instructions may not be terminated until the World Bank has received from the Central Bank a copy of a notification from the FRBNY to that effect on behalf of the Cooperating Monetary Institutions. Copies of the letters in the form set forth in Schedules G and H shall be provided to the FRBNY in accordance with paragraphs (6)(ii)(b) above as conditions precedent to the First Drawing under the Facility.

(iv) With respect to disbursements from the JEXIM under the JEXIM Financing, the appropriate Hungarian authorities shall, in the form set forth in Schedule I, irrevocably instruct (a) the

JEXIM to deposit such disbursements into a Japanese yen account of the Central Bank with the Bank of Japan and (b) the Bank of Japan to purchase United States dollars with the proceeds of such disbursements and to transfer immediately the United States dollars so purchased to the Special Funds Account. The Central Bank also shall provide to the FRBNY a copy of a letter addressed to Hungary and the Central Bank by the JEXIM, in the form set forth in Schedule J, in which the JEXIM (a) takes note that the proceeds of the disbursements by the JEXIM under the JEXIM Financing will be deposited into the Japanese yen account of the Central Bank with the Bank of Japan, the Bank of Japan will purchase United States dollars in exchange for the Japanese yen deposited into the Japanese yen account, and such United States dollars will be applied in repayment of the Facility, (b) confirms that the JEXIM will carry out instructions by the Hungarian authorities to implement the arrangements described in (a) above, and (c) notes that such instructions may not be terminated until the JEXIM has received from the Central Bank a copy of a notification from the FRBNY to that effect on behalf of the Cooperating Monetary Institutions. Copies of the letters in the form set forth in Schedules I and J shall be provided to the FRBNY in accordance with paragraph (6)(iv)(b) above as conditions precedent to the Third Drawing under the Facility.

(v) The Central Bank hereby irrevocably agrees to the use of the funds deposited into the Special Funds Account for repayments provided for in paragraphs (7)(i) and (ii) above and

in accordance with the Repayment Procedures. If, after such debit, the Facility, including accrued interest, has not been repaid in full on the Maturity Date, then the Central Bank will deposit into the Special Funds Account sufficient additional funds to repay the Facility in full including interest. If the Facility, including accrued interest, has not been repaid in full on the Maturity Date, the FRBNY is irrevocably authorized and instructed to debit the Special Funds Account and disburse the funds so debited in repayment of the Facility in accordance with paragraph (8) above as and when additional funds are received in the Special Funds Account from the World Bank, the Fund, the JEXIM, or from any other source, and is irrevocably authorized and instructed to debit any other account and liquidate any investments of the Central Bank at the FRBNY in accordance with paragraph (8)(ii) above. After repayment in full of the Facility, including interest, the Facility shall terminate, and only then shall the Central Bank be entitled to draw on funds in the Special Funds Account.

(10) Continuing Effect of the Memorandum of Understanding and the Separate Agreements

(i) The BIS agrees that the substitution agreement between the BIS and its participating member central banks concerning implementation of the Separate Agreement between the BIS and the Central Bank shall provide that, in the event of the substitution of such central banks for the BIS, such central banks shall be

bound by the same terms and conditions as are applicable to the BIS under this Memorandum of Understanding.

(ii) The Central Bank agrees that the rights of each of the Cooperating Monetary Institutions or any central bank or monetary authority that may be substituted for them under the Separate Agreements shall continue in effect until such time as the Central Bank has fulfilled all its obligations under such Separate Agreements and under the Memorandum of Understanding.

(11) Authority of the Central Bank

(i) The Central Bank warrants that it has full power and authority to enter into and perform its obligations under this Memorandum of Understanding and the Separate Agreements and has taken all necessary corporate and other actions to authorize the performance of the terms and conditions thereof.

(ii) The Central Bank warrants that Hungary has agreed in writing, in the form set forth in Schedule C; (x) to take whatever actions, and provide any other support, necessary to facilitate the Central Bank's performance under this Memorandum of Understanding and under the Separate Agreements and (y) to take all actions necessary on its part to apply for all purchases under the Fund Arrangement and all disbursements under the World Bank Loan and JEXIM Financing for which it is eligible. The document in the form set forth in Schedule C shall be provided to the FRBNY in accordance with paragraph (6)(ii)(e) above as a condition precedent to the drawings under the Facility.

(12) Rules Applicable to the FRBNY

In carrying out its functions, the FRBNY shall have the authority to interpret and act under the irrevocable authorizations and instructions received by it hereunder and any notifications or other communications that the parties hereto shall send or transmit to the FRBNY, in such manner as the FRBNY, in its sole judgment, deems reasonable. In making any calculations of the drawings and repayments provided for under this Memorandum of Understanding and the Separate Agreements, the FRBNY shall have the authority to make rounding adjustments to any amounts determined on the basis of the proportionate share of each Cooperating Monetary Institution to the Commitments so that total drawings and repayments under the Facility equal the Commitments of each of the Cooperating Monetary Institutions in accordance with the terms of this Memorandum of Understanding. No compensation shall be due from the Central Bank for services rendered by the FRBNY under the authorizations and instructions in this Memorandum of Understanding. In carrying out its functions under this Memorandum of Understanding the FRBNY shall be liable only for its failure to exercise reasonable care.

(13) Amendment

This Memorandum of Understanding may be amended by the consent in writing, including consent by authenticated telecommunication, of all the parties to such Memorandum.

(14) Entry into Effect

(i) By transmitting an authenticated telecommunication to the FRBNY containing the word "Finch" and its name, each

Cooperating Monetary Institution (a) indicates its consent to the terms of this Memorandum of Understanding and (b) confirms that its Separate Agreement with the Central Bank has been executed.

(ii) By transmitting an authenticated telecommunication to the FRBNY containing the word "Sparrow" and its name, the Central Bank (a) indicates its consent to the terms of this Memorandum of Understanding, (b) confirms that both of its Separate Agreements with the Cooperating Monetary Institutions have been executed, and (c) irrevocably authorizes and instructs the FRBNY to establish the Special Funds Account and to effect repayment of the Facility in accordance with this Memorandum of Understanding.

(iii) All notices referred to in subparagraphs (i) and (ii) of this paragraph shall hereinafter be referred to as the "Notices."

(iv) This Memorandum of Understanding and all of the Separate Agreements shall take effect when the FRBNY advises the Cooperating Monetary Institutions and the Central Bank by authenticated telecommunication that it has received all of the Notices required by this paragraph (14). No message shall be effective to alter the terms of such Notices.

SCHEDULE A

AMOUNTS OF COMMITMENTS OF COOPERATING MONETARY INSTITUTIONS
TO THE FACILITY

(millions of U.S. dollars)

Part 1

Total of the Commitments made by each of the
Cooperating Monetary Institutions

Bank for International Settlements (acting for eleven participating member central banks)	260.00
U.S. Department of the Treasury	20.00
TOTAL FOR FACILITY	<u>280.00</u>

Part 2

Breakdown of the Total Commitments into
Group A and Group B Commitments

The Group A Commitments:

Bank for International Settlements (acting for the Bank of Japan in the latter's capacity as a participating member central bank)	70.00
U.S. Department of the Treasury	20.00
<u>Subtotal</u>	<u>90.00</u>

The Group B Commitment:

Bank for International Settlements (acting for the ten participating member central banks other than the Bank of Japan)	190.00
TOTAL FOR FACILITY	<u>280.00</u>

SCHEDULE B
WORLD BANK LETTER

[Date]

Bank for International Settlements
U.S. Department of the Treasury

Dear Sirs:

I am writing to confirm that documents regarding the proposed Structural Adjustment Loan from the International Bank for Reconstruction and Development (the "World Bank") to the National Bank of Hungary (the "NBH") have been circulated to the Executive Directors of the World Bank for consideration and approval. In this regard, all conditions for presentation of the loan to the Executive Directors have been met, including agreement on a medium-term economic framework. Consideration of the Loan by the Executive Directors has been scheduled for June 20, 1990, and the President of the World Bank has recommended that the loan be approved. I am not aware of any factors that would preclude consideration of the loan by the Executive Directors.

NBH has informed the World Bank that it expects to submit withdrawal applications under the first tranche of the loan in an aggregate amount equivalent to approximately U.S.\$100 million requesting reimbursement of expenditures incurred during the execution of the program supported under the loan so as to enable NBH to withdraw loan proceeds in such amount on or prior to July 31, 1990. NBH's expectation appears to be reasonable, subject to approval of the loan by the World Bank's Executive Directors, satisfaction by NBH of the normal conditions for the effectiveness and disbursement of the loan and submission in a timely manner by NBH of all documentation required by the loan agreement for withdrawal of such proceeds.

The statements contained in this letter are not to be construed as a waiver of any rights which the World Bank may have under the loan or guarantee agreements relating to the loan or under the World Bank's General Conditions Applicable to Loan and Guarantee Agreements.

Very truly yours,

Director, Country Department IV
Europe, Middle East and North Africa Regional Office

[LETTERHEAD OF THE MINISTRY OF FINANCE
OF THE HUNGARIAN REPUBLIC]

SCHEDULE C
LETTER FROM THE HUNGARIAN REPUBLIC TO CENTRAL BANK

[Date]

Magyar Nemzeti Bank

Dear Sirs:

We refer to the Memorandum of Understanding dated June 15, 1990, (the "Memorandum of Understanding"), among the Magyar Nemzeti Bank (the "Central Bank") and the Cooperating Monetary Institutions, and the Separate Agreements (the "Separate Agreements") under which the Cooperating Monetary Institutions have agreed to provide near-term support for the international reserves of the Hungarian Republic ("Hungary") in the aggregate amount of U.S. \$280 million. Pursuant to paragraph (11)(ii) of the Memorandum of Understanding, we hereby warrant that Hungary has agreed to take all actions, and to provide any other support, necessary to facilitate the Central Bank's performance under the Memorandum of Understanding and each of the Separate Agreements. We also hereby warrant that Hungary will take all actions necessary on its part to apply for all purchases or disbursements for which it is eligible (i) under the Stand-by Arrangement with the International Monetary Fund, (ii) under the expected World Bank Structural Adjustment Loan, and (iii) under the expected Co-financing Arrangement to be provided by the Export-Import Bank of Japan.

Sincerely,

HUNGARIAN REPUBLIC

BY: _____
Minister of Finance

SCHEDULE D

LETTER FROM THE MANAGING DIRECTOR OF THE FUND
WITH RESPECT TO DRAWING

[Date]

Bank for International Settlements

U.S. Department of the Treasury

Dear Sirs:

As stated below, this letter confirms the indications given in my letters of May 9 and May 29, 1990, addressed to Mr. Lamfalussy.

Under the stand-by arrangement for Hungary, which was approved on March 14, 1990, and continues in effect, Hungary has the right to make purchases from the Fund up to the total amount of SDR 159 million approved under the arrangement. The first purchase under the stand-by arrangement was made on March 19, 1990. On the basis of a favorable staff report on Hungary's position, policies and prospects, I have recommended that the Executive Board complete the review prescribed under the stand-by arrangement including a modification of certain performance criteria for end-June, thereby enabling Hungary to make the second purchase under the arrangement of up to SDR 31.84 million upon the completion of the review by the Executive Board which I expect to take place before the end of July.' In addition, I have no reason to believe at this date that Hungary will be unable to meet the conditions for the third purchase of up to SDR 31.84 million which would become available at the end of August.

Sincerely yours,

Michel Camdessus
Chairman of the Executive Board
and
Managing Director

SCHEDULE E
JEXIM LETTER

[date]

Bank for International Settlements
U.S. Department of the Treasury

Dear Sirs:

This is to confirm that the President of the Export-Import Bank of Japan (the "JEXIM") has approved on [date] a loan agreement between the National Bank of Hungary (the "NBH") and the JEXIM (the "Loan Agreement"). The JEXIM is providing a loan to the NBH (the "Loan") in co-financing with a structural adjustment loan (the "SAL") being provided to the NBH by the International Bank for Reconstruction and Development (the "World Bank"). The Loan will be composed of two tranches; the first tranche of the Loan will be approximately U.S. \$100 million equivalent in yen, which is expected to be effective once the Loan Agreement has been signed. The actual disbursements under the first tranche will be made in a same manner as those of the World Bank's SAL.

NBH has informed the JEXIM that it expects to receive under the first tranche of the Loan an aggregate amount equivalent to approximately U.S. \$100 million on or prior to September 14, 1990. NBH's expectation appears to be reasonable subject to execution of the Loan Agreement, satisfaction by NBH of the normal conditions for the disbursement of the Loan, and submission in a timely manner by NBH of all documentation required by the Loan Agreement for disbursements.

The statements contained in this letter are not to be construed as a waiver of any rights which the JEXIM may have under the Loan Agreement.

Very truly yours,

Export-Import Bank of Japan

SCHEDULE F
FORM OF IRREVOCABLE INSTRUCTIONS TO
THE INTERNATIONAL MONETARY FUND

[Date]

The Treasurer's Department
International Monetary Fund
Washington, DC 20431

Re: Stand-by Arrangement and Other Sources of IMF Financing
for Hungary

Dear Sirs:

The Hungarian Republic ("Hungary") hereby authorizes and instructs the International Monetary Fund (the "IMF") to arrange on Hungary's behalf that the proceeds of all purchases made by Hungary under the Stand-by Arrangement (the "Fund Arrangement") or any other purchases from the IMF by Hungary, be either provided in, or converted into, U.S. dollars, and deposited into the Special Funds Account (the "Special Funds Account") of the Magyar Nemzeti Bank (the "Central Bank") with the Federal Reserve Bank of New York (the "FRBNY").

For your information, the Central Bank has separately given the FRBNY an irrevocable instruction that all of the funds deposited in the Special Funds Account will be used to repay drawings made by the Central Bank under a short-term credit facility (the "Facility") that the Cooperating Monetary Institutions have agreed to establish for the purpose of providing near-term support for the international reserves of Hungary. The aggregate amount of drawings by the Central Bank under the Facility may amount to as much as U.S. dollars 280 million. The Central Bank has committed to the Cooperating Monetary Institutions that the instructions to the IMF shall not be revoked or modified by the Central Bank, Hungary, or any other Hungarian institution until the Facility is repaid in full, including accrued and unpaid interest, and the IMF has received from the Central Bank a copy of a notification by the FRBNY to the Central Bank to that effect.

Hungary and the Central Bank have agreed to provide any confirmations of such instructions contained herein as are required by the IMF at the time of any purchases from the IMF which are referred to herein.

The Central Bank acknowledges that your action on this request and authorization will be taken in conformity with the relevant provisions of the Fund Arrangement or any other IMF

facility or arrangement made available to Hungary, and confirms that such action shall not be construed in any way as a waiver of any right which the IMF may have under the Fund Arrangement or under any other IMF facility or arrangement made available to Hungary.

The Central Bank is providing a copy of the executed original of this letter to the FRBNY.

Sincerely yours,

For the Hungarian Republic

By _____

For the Magyar Nemzeti Bank

By _____

SCHEDULE G
FORM OF WORLD BANK IRREVOCABLE INSTRUCTIONS

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433

Attention: Director, Country Department IV
Europe, Middle East and North Africa Regional Office

Re: Loan Disbursements

Dear Sirs:

We refer to the proposed Structural Adjustment Loan (the "World Bank Loan") to the National Bank of Hungary ("NBH") from the International Bank for Reconstruction and Development (the "World Bank"). NBH hereby instructs the World Bank to deposit in the Special Funds Account (the "Special Funds Account") of NBH at the Federal Reserve Bank of New York (the "FRBNY") all of the proceeds of withdrawals under the World Bank Loan that are made or may be made by the World Bank to us for reimbursement of expenditures incurred during the execution of the program supported under the World Bank Loan, if and when the World Bank Loan is approved and we become entitled to any such withdrawals under the terms and conditions of the World Bank Loan, subject to the following:

(a) This instruction is applicable to proceeds of withdrawal applications under the World Bank Loan approved by the World Bank after the date of this letter until receipt by the World Bank of the notification referred to in paragraph (c) below.

(b) Deposits in the Special Funds Account shall be made in United States dollars. For this purpose, the World Bank is hereby instructed to use the proceeds of any such withdrawals under the World Bank Loan to purchase dollars under such terms and conditions as the World Bank shall determine.

(c) NBH and the Republic of Hungary have agreed with the Bank for International Settlements, acting for certain member central banks, and the United States Department of the Treasury ("Cooperating Monetary Institutions"), that this instruction, which has as its objective putting in place administrative arrangements to provide for the fulfillment of the obligations of NBH and the Republic of Hungary under an agreement with the Cooperating Monetary Institutions, shall be irrevocable until the World Bank receives from NBH a copy of the notification from the FRBNY to NBH to the effect that the instruction to make deposits to the Special Funds Account may be terminated.

We are not aware of any third party claims upon the proceeds of the World Bank Loan to be deposited in the Special Funds Account.

We acknowledge that your action on this instruction will be taken in conformity with the relevant provisions of the loan and guarantee agreements for the World Bank Loan, and such action shall not be construed in any way as a waiver of any right which the World Bank may have under such agreements or under the World Bank's General Conditions Applicable to Loan and Guarantee Agreements.

We are providing copies of our letter to you and your reply to the FRBNY.

Sincerely yours,

National Bank of Hungary

By: _____

Confirmation by
the Republic of Hungary
as Guarantor under the
World Bank Loan

By: _____

SCHEDULE H
FORM OF WORLD BANK CONFIRMATION OF IRREVOCABLE INSTRUCTIONS

Minister of Finance of
the Republic of Hungary

President of the
National Bank of Hungary

Dear Sirs:

(1) This letter acknowledges receipt of the instruction, which is in the form attached as Appendix I, from the National Bank of Hungary ("NBH") to pay the proceeds of withdrawal applications approved after the date of this letter that are made or may be made to NBH from the International Bank for Reconstruction and Development (the "World Bank") under the proposed Structural Adjustment Loan (the "World Bank Loan"), as to which NBH is the borrower, for the reimbursement of expenditures incurred during the execution of the program supported under the World Bank Loan to the Special Funds Account (the "Special Funds Account") of NBH established for this purpose at the Federal Reserve Bank of New York (the "FRBNY").

(2) We hereby confirm that, subject to approval of the World Bank Loan by the World Bank's Executive Directors and prior receipt of all necessary documentation and evidence under the World Bank Loan that withdrawal requirements have been fully complied with, the World Bank will carry out the disbursement instruction referred to in paragraph (1). In this connection, we have been informed that NBH and the Republic of Hungary have agreed with the Bank for International Settlements, acting for certain member central banks, and the United States Department of the Treasury that the foregoing instruction shall be irrevocable until the World Bank receives from NBH a copy of a notification from the FRBNY to NBH to the effect that the instruction to make deposits to the Special Funds Account may be terminated.

(3) Our action on this instruction will be taken in conformity with the relevant provisions of the loan and guarantee agreements for the World Bank Loan and shall not be construed in any way as a waiver of any right which the World Bank may have under such agreements or under the World Bank's General Conditions Applicable to Loan and Guarantee Agreements.

(4) The World Bank is not aware of any third party claims by suppliers and contractors upon the proceeds of the World Bank Loan that are to be deposited in the Special Funds Account.

Sincerely yours,

Director, Country Department IV
Europe, Middle East and North Africa Regional Office

SCHEDULE I
FORM OF JEXIM IRREVOCABLE INSTRUCTIONS

The Export-Import Bank of Japan
Bank of Japan

Dear Sirs:

We refer to the proposed loan (the "Loan") from the Export-Import Bank of Japan (the "JEXIM") to the National Bank of Hungary (the "NBH"). The NBH hereby irrevocably instructs the JEXIM to deposit the proceeds of any disbursements to which the NBH may be entitled under the Loan in Japanese yen into the existing account of the NBH (the "Yen Account") with the Bank of Japan (the "BoJ"). The NBH hereby also instructs the BoJ to purchase United States dollars for such proceeds under the conditions stipulated in the existing terms and conditions between the NBH and the BoJ, and to transfer immediately any such United States dollars purchased to an account of the NBH with the Federal Reserve Bank of New York (the "FRBNY") known as the Special Funds Account.

The NBH and the Republic of Hungary have agreed with the Bank for International Settlements, acting for certain member central banks, and the United States Department of the Treasury (the "Cooperating Monetary Institutions"), that these instructions, which have as their objective putting in place administrative arrangements to provide for the fulfillment of the obligations of the NBH and the Republic of Hungary under an agreement with the Cooperating Monetary Institutions, shall be irrevocable until the JEXIM receives from the NBH a copy of the notification from the FRBNY to the NBH to the effect that the instructions to make deposits to the Special Funds Account may be terminated.

We are not aware of any third party claims upon the proceeds of disbursements under the JEXIM Loan to be deposited into the Yen Account of the NBH with the BoJ and used to purchase United States dollars for transfer to the Special Funds Account with the FRBNY.

We acknowledge that any action that the JEXIM may take on these instructions shall not be construed in any way as a waiver of any right which the JEXIM may have under the loan agreement applicable to the Loan.

We are providing copies of our letter to you and your
reply to the FRBNY.

Sincerely yours,

National Bank of Hungary

By: _____

SCHEDULE J
FORM OF JEXIM CONFIRMATION OF IRREVOCABLE INSTRUCTIONS

Minister of Finance of
the Hungarian Republic

President of the
National Bank of Hungary

Dear Sirs:

(1) This letter acknowledges receipt of the irrevocable instructions, which are in the form attached as Appendix I, from the National Bank of Hungary (the "NBH") to pay the proceeds of any disbursements to which the NBH may be entitled under the loan ("the Loan") from the Export-Import Bank of Japan (the "JEXIM") to the NBH in Japanese yen into the existing account of the NBH (the "Yen Account") with the Bank of Japan (the "BoJ") and to instruct the BoJ to purchase United States dollars in exchange for such Japanese yen deposited into the Yen Account under the conditions stipulated in the existing terms and conditions between the NBH and the BoJ, and to transfer immediately any such United States dollars purchased to an account of the NBH with the Federal Reserve Bank of New York (the "FRBNY") known as the Special Funds Account.

(2) We hereby confirm that the JEXIM will carry out the disbursement instructions referred to in paragraph (1). In this connection, we have been informed that the NBH and the Hungarian Republic have agreed with the Bank for International Settlements, acting for certain member central member banks, and the United States Department of the Treasury that the foregoing instructions shall be irrevocable until the JEXIM receives from the NBH a copy of a notification from the FRBNY to the NBH to the effect that the instructions to make deposits to the Special Funds Account may be terminated.

(3) Any action that the JEXIM may take on these instructions shall not be construed in any way as a waiver of any right which the JEXIM may have under the loan agreement applicable to the Loan.

(4) The JEXIM is not aware of any third party claims by suppliers and contractors upon the proceeds of disbursements

- 2 -

under the Loan that are to be deposited in the Yen Account of the NBH with the BoJ and used to purchase United States dollars for transfer to the Special Funds Account.

Sincerely yours,

Export-Import Bank of Japan

Confirmation of
irrevocable
instructions with
respect to the
Yen Account:

Bank of Japan